

Agenda Item 2-B (Updated)

Proposed Quality Management-related Conforming Amendments to the Code

SECTION 120

THE CONCEPTUAL FRAMEWORK

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Considerations for Audits, Reviews and Other Assurance Engagements

- 120.15 A3 Conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of audits, reviews and other assurance engagements, the existence of a quality management system designed, ~~and~~ implemented ~~and operated~~ by a firm in accordance with the quality management standards issued by the IAASB is an example of such conditions, policies and procedures.

Commented [A1]: To align with language in ISQM 1.

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

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The Firm and its Operating Environment

- 300.7 A5 A professional accountant's evaluation of the level of a threat might be impacted by the work environment within the accountant's firm and its operating environment. For example:

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- The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, ~~including decisions about accepting or providing services to a client.~~

Commented [A2]: Reason for amendment:

IAASB Staff has provided feedback that this provision in the Code implies that the engagement partner makes the decision to accept or continue the client engagement. Between ISQM 1 and ISA 220 (Revised), the firm makes the decision – the engagement partner merely confirms that the firm followed its policies or procedures in this regard.

SECTION 320

PROFESSIONAL APPOINTMENTS

Client and Engagement Acceptance

General

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- 320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the engagement team does not possess, or cannot acquire, the

competencies to perform the professional services.

320.3 A4 Factors that are relevant in evaluating the level of such a threat include:

- An appropriate understanding of:
 - The nature of the client's business;
 - The complexity of its operations;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.
- Knowledge of relevant industries or subject matter.
- Experience with relevant regulatory or reporting requirements.
- The existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently. Whether the firm has implemented policies or procedures, as part of a system of quality management in accordance with ISQM 1, that respond to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.

Commented [A3]: Reason for amendment:

IAASB Staff has explained that the quality objective in para 30(a)(ii) of ISQM 1 deals with the ability to perform the engagement (i.e., the competence/capabilities of the engagement team).

"The firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. (Ref: Para. A72)"

The firm would then identify quality risks to the achievement of this objective and design responses (policies or procedures) to address the quality risks.

In other words, there is a threat to the firm's ability to meet the quality objective when the policies or procedures installed to meet the quality objective are deficient. So, the threat to assigning individuals lacking the appropriate competence is higher when the policies or procedures installed by the system of quality management (SOQM) are not effective, and hence remediation is required.

Concept of Reasonable Assurance

Furthermore, IAASB Staff has indicated that the concept of reasonable assurance at the individual policies or procedures level was taken out of ISQM 1 because the SOQM as a whole provides reasonable assurance - this was a key change in ISQM 1 that the various pieces all need to work together.

SECTION 330

FEES AND OTHER TYPES OF REMUNERATION

Contingent Fees

330.4 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.

330.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the engagement.
- The range of possible fee amounts.
- The basis for determining the fee.
- Disclosure to intended users of the work performed by the professional accountant and the basis of remuneration.
- ~~Quality control policies and or procedures. Whether the firm has implemented policies or procedures, as part of a system of quality management in accordance with ISQM 1, that address threats to compliance with the fundamental principles.~~
- Whether an independent third party is to review the outcome or result of the transaction.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

Commented [A4]: Reason for amendment:

As per above - Relationship of quality risks, threats and policies or procedures.

INTERNATIONAL INDEPENDENCE STANDARDS (PARTS 4A AND 4B)

PART 4A –INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

400.4 ~~ISQC-ISQM 1~~ requires a firm to ~~establish policies and procedures designed to design, implement and operate a system of quality management for audits or reviews of financial statements performed by the firm, provide it with reasonable assurance that As part of this system of quality management, ISQM 1 requires the firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Under ISQM 1, relevant ethical requirements are those related to the firm,~~ its personnel and, where applicable, others subject to the independence requirements to which the firm and the firm's engagements are subject (including ~~network firms, firm personnel, individuals in the network or network firms, or service providers~~), ~~maintain independence where required by relevant ethics requirements.~~ ISAs and ISREs establish responsibilities for engagement partners and engagement teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference. ~~A firm~~ assigns operational responsibility for compliance with independence requirements to an individual(s) in accordance with ~~ISQM ISQC~~ 1. In addition, an individual professional accountant remains responsible for compliance with any provisions that apply to that accountant's activities, interests or relationships.

Commented [A5]: Editorial amendments to align to language in ISQM 1.

Commented [A6]: Reason for amendment:

IAASB Staff has provided feedback that the reference to reasonable assurance in this paragraph is also being used in the context of the individual matter, rather than the SOQM as whole. In ISQM 1, reasonable assurance is used only in the context of achieving the overall objectives in paragraph 14 (i.e., as a whole), rather than on individual components or quality objectives because of the notion of the integration of the components.

Commented [A7]: Alignment with ISQM 1, para 29(b).

Network Firms

R400.53 When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:

- (a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 400.53 A2);
- (b) The entities within the structure share common ownership, control or management. (Ref: Para. 400.53 A3);
- (c) The entities within the structure share common quality ~~management control~~ policies ~~and~~ procedures. (Ref: Para. 400.53 A4);
- (d) The entities within the structure share a common business strategy. (Ref: Para. 400.53 A5);
- (e) The entities within the structure share the use of a common brand name. (Ref: Para.

400.53 A6, 400.53 A7); or

- (f) The entities within the structure share a significant part of professional resources. (Ref: Para 400.53 A8, 400.53 A9).

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400.53 A4 Common ~~quality control~~management policies ~~and~~ procedures are those designed, implemented and monitored across the larger structure. (Ref: Para. R400.53(c)).

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Breach of an Independence Provision for Audit and Review Engagements

When a Firm Identifies a Breach

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400.80 A1 A breach of a provision of this Part might occur despite the firm having ~~policies and procedures a system of quality management designed to provide it with reasonable assurance that independence is maintained~~ address and maintain independence. It might be necessary to end the audit engagement because of the breach.

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Mergers and Acquisitions

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R400.73 If, following the discussion set out in paragraph R400.72(b), those charged with governance request the firm to continue as the auditor, the firm shall do so only if:

- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
- (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 600 and its subsections, will not be a member of the engagement team for the audit or the individual responsible for the engagement quality ~~control~~ review; and
- (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

400.73 A1 Examples of such transitional measures include:

- Having a professional accountant review the audit or non-assurance work as appropriate.
- Having a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, perform a review ~~that is consistent with the objective of~~ an engagement quality ~~control~~ review.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

Commented [A8]: Reason for amendment:

IAASB staff has provided feedback that ISQM 1 recognizes that there is more to networks than merely policies or procedures. ISQM 1 refers more broadly to network requirements or network services. Policies or procedures would only cover responses. However, networks are likely to share quality objectives and quality risks. (See paragraph A175 of ISQM 1.)

In finalizing ISQM 1, IAASB has avoided substantively revising the definition of a network in ISQM 1 to avoid creating unintended consequences for the Code. So, the definition of a network in ISQM 1 continues to refer to policies or procedures. IAASB staff has suggested that consideration be given to enhancing the application material in para 400.53 A4 to better explain the meaning of "quality management policies or procedures" in the context of ISQM 1.

As this is a substantive matter that will require coordination with the IAASB's ISQM 1 TF, the Board is asked to consider addressing it as part of the Engagement-Team – Group Audits Independence (ET-GA) project.

Commented [A9]: As above re use of reasonable assurance in the context of a single matter.

Commented [A10]: To be consistent with wording in paragraph R410.18 of revised Fees provisions.

SECTION 410 (REVISED)

FEES

Requirements and Application Material

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410.4 A4 The conditions, policies and procedures described in paragraph 120.15 A3 (particularly the existence of a quality management system designed, ~~and~~ implemented ~~and operated~~ by the firm in accordance with the quality management standards issued by the IAASB) might also impact the evaluation of whether the threats to independence are at an acceptable level.

Commented [A11]: To align with language in ISQM 1.

SECTION 540

LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

Requirements and Application Material

All Audit Clients

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R540.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit engagement;
- (b) Provide quality control for the audit engagement; or
- (c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.

Audit Clients that are Public Interest Entities

R540.5 Subject to paragraphs R540.7 to R540.9, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the "time-on" period):

- (a) The engagement partner;
- (b) The individual appointed as responsible for the engagement quality ~~control~~-review; or
- (c) Any other key audit partner role.

After the time-on period, the individual shall serve a "cooling-off" period in accordance with the provisions in paragraphs R540.11 to R540.19.

Cooling-off Period

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Commented [A12]: IAASB Staff has provided feedback that there are potentially many people in a firm performing various functions related to the SOQM, as described in ISQM 1. Accordingly, changing "quality control" to "quality management" would give rise to a substantive question and not be a mere terminology alignment.

As this is a substantive matter which is also being considered under the ET-GA project in relation to the definition of "audit team," the Board is asked to consider having the ET-GA TF address the nature of any changes needed to this provision.

R540.12 Where the individual has been appointed as responsible for the engagement quality ~~control~~ review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

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Service in a combination of key audit partner roles

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R540.15 Subject to paragraph R540.16(a), if the individual acted in a combination of key audit partner roles and served as the key audit partner responsible for the engagement quality ~~control~~ review for four or more cumulative years, the cooling-off period shall be three consecutive years.

R540.16 If an individual has acted in a combination of engagement partner and engagement quality ~~control~~-reviewer roles for four or more cumulative years during the time-on period, the cooling-off period shall:

- (a) As an exception to paragraph R540.15, be five consecutive years where the individual has been the engagement partner for three or more years; or
- (b) Be three consecutive years in the case of any other combination.

Restrictions on Activities During the Cooling-off Period

R540.20 For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be an engagement team member or provide ~~quality control~~ for the audit engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit);
- (c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the audit client, or overseeing the relationship of the firm or a network firm with the audit client; or
- (d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services, that would result in the individual:
 - (i) Having significant or frequent interaction with senior management or those charged with governance; or
 - (ii) Exerting direct influence on the outcome of the audit engagement.

Commented [A13]: As per comment on para R540.4.

SECTION 800

REPORTS ON SPECIAL PURPOSE FINANCIAL STATEMENTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (AUDIT AND REVIEW ENGAGEMENTS)

Requirements and Application Material

General

Financial Interests, Loans and Guarantees, Close Business Relationships, and Family and Personal Relationships

R800.10 When the firm performs an eligible audit engagement:

- (a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the engagement team, their immediate family members and, where applicable, close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525, between the audit client and the following audit team members:
 - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
 - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement.

Commented [A14]: IAASB Staff has provided feedback that in ISQM 1, the term "consultation" is used more broadly, i.e., it is not limited to "technical or industry specific issues, transactions or events". They have also queried whether individuals who deal with differences of opinion are included under bullet (b)(ii).

As the feedback from IAASB Staff raises a substantive matter beyond mere conforming amendments, the Board is asked to consider having the ET-GA TF address it as part of the latter's consideration of potential amendments to the definition of "audit team".

Commented [A15]: As per comment on para R540.4.

PART 4B (REVISED) – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

SECTION 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

900.3 ISQM 1 requires a firm to ~~establish policies and procedures designed to design, implement and operate a system of quality management for assurance engagements performed by the firm, provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethics standards. As part of this system of quality management, ISQM 1 requires the firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Under ISQM 1, relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm's engagements are subject (including network firms, individuals in the network or network firms, or service providers).~~ In addition, ISAEs and ISAs establish responsibilities for engagement partners and engagement teams at the level of the engagement. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of Part 4B do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference. ~~A firm assigns operational responsibility for compliance with independence requirements a particular action to an individual(s) or a group of individuals (such as an assurance team)~~ in accordance with ISQM 1. Additionally, an individual professional accountant remains responsible for compliance with any provisions that apply to that accountant's activities, interests or relationships.

Commented [A16]: Wording changes to align with corresponding changes to para 400.4.

SECTION 940

LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT

Requirements and Application Material

General

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R940.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the assurance team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the assurance engagement;
- (b) Provide ~~quality control~~ for the assurance engagement; or

Commented [A17]: As per comment on para R540.4.

- (c) Exert direct influence on the outcome of the assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed.

**SECTION 990
REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION
(ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS)**

Financial Interests, Loans and Guarantees, Close Business, Family and Personal Relationships

R990.7 When the firm performs an eligible assurance engagement:

- (a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the engagement team, and their immediate and close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the assurance client and the following assurance team members:
 - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
 - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.

Commented [A18]: As per comment on para R800.10.

Commented [A19]: As per comment on para R540.4.

Commented [A20]: No change for now – to be addressed by ET-GA TF in the upcoming ET-GA Exposure Draft as a substantive matter.

GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

- Assurance team
- (a) All members of the engagement team for the assurance engagement;
 - (b) All others within a firm who can directly influence the outcome of the assurance engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;
 - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
 - (iii) Those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.

Commented [A21]: As per comment on para R800.10.

Commented [A22]: No change for now – to be addressed by ET-GA TF in the upcoming ET-GA Exposure Draft as a substantive matter.

- Audit team
- (a) All members of the engagement team for the audit engagement;
 - (b) All others within a firm who can directly influence the outcome of the audit engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
 - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
 - (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and
 - (c) All those within a network firm who can directly influence the outcome of the audit engagement.

Commented [A23]: IAASB Staff has provided feedback that in ISQM 1, there was an update to these terms from extant ISQC 1: chief executive officer or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent).

As broadening this part of the definition to include a firm's managing board of partners is a substantive matter, the Board is asked to consider having the ET-GA TF address the matter as part of its consideration of the definition of "audit team".

Commented [A24]: As per comment on para R800.10.

Commented [A25]: No change for now – to be addressed by ET-GA TF in the upcoming ET-GA Exposure Draft as a substantive matter.

Commented [A26]: IAASB Staff has queried whether this should be the network? ISQM 1 contemplates that there is the network, other firms in the network and other structures or organizations within the network.

As this is a substantive matter, the Board is asked to consider having the ET-GA TF address it as part of its consideration of the definition of "audit team".

In Part 4A, the term "audit team" applies equally to "review team."

Proposed QM-related Conforming Amendments to the Code
IESBA Meeting (June 2021)

Engagement quality control review

~~A process designed to provide an objective evaluation, on or before the report is issued, An objective evaluation~~ of the significant judgments ~~made by~~ the engagement team ~~made~~ and the conclusions ~~it reached in formulating the thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.~~

Commented [A27]: Changes to align with revised definition in ISQM 1.

Engagement quality reviewer

~~A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.~~

Commented [A28]: From ISQM 1; also set out in para 325.5 A2 of new EQR Objectivity pronouncement.

Key audit partner

The engagement partner, the individual responsible for the engagement quality ~~control~~ review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" might include, for example, audit partners responsible for significant subsidiaries or divisions.

Network

A larger structure:

- (a) That is aimed at co-operation; and
- (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality ~~control~~management policies ~~and/or~~ procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

Commented [A29]: To align with para R400.53 above

Review team

- (a) All members of the engagement team for the review engagement; and
- (b) All others within a firm who can directly influence the outcome of the review engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
 - (ii) Those who provide ~~consultation~~ regarding technical or industry specific issues, transactions or events for the engagement; and
 - (iii) Those who provide quality control for the ~~engagement~~, including those who perform the engagement quality control review for the engagement; and
- (c) All those within a ~~network~~ firm who can directly influence the outcome of the review engagement.

Commented [A30]: As per comment above on definition of audit team.

Commented [A31]: No change for now – to be addressed by ET-GA TF in the upcoming ET-GA Exposure Draft as a substantive matter.

Commented [A32]: As per comment above on definition of audit team.

LISTS OF ABBREVIATIONS AND STANDARDS REFERRED TO IN THE CODE

LIST OF ABBREVIATIONS

Abbreviation	Explanation
Assurance Framework	International Framework for Assurance Engagements
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CoCo	Chartered Professional Accountants of Canada Criteria of Control
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
ISAs	International Standards on Auditing
ISAEs	International Standards on Assurance Engagements
ISQMCs	International Standards on Quality Management Control
ISREs	International Standards on Review Engagements

LIST OF STANDARDS REFERRED TO IN THE CODE

Standard	Full Title
ISA 320	Materiality In Planning and Performing an Audit
ISA 610 (Revised 2013)	Using the Work of Internal Auditors
ISAE 3000 (Revised)	Assurance Engagements Other than Audits or Reviews of Historical Financial Information
ISQM C 1	Quality Control Management for Firms that Perform Audits and-or Reviews of Financial Statements, and-or Other Assurance and-or Related Services Engagements
ISQM 2	Engagement Quality Reviews
ISRE 2400 (Revised)	Engagements to Review Historical Financial Statements